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TRANSMITTAL LETTER

June 16, 2004

Honorable Mayor, Members of the City Council, and Residents of the City of Auburn:

Pursuant to Section 2-3.219 of Title 2 of the Auburn Municipal Code, I am pleased to make the following recommendations for this coming year's financial plan. The attached preliminary budget is a financial plan for services to be provided to the residents and businesses of the City of Auburn during the fiscal year which begins July 1, 2004 and which ends June 30, 2005.

The City's overall financial condition remains sound. We maintain an adequate cash reserve within the City's General Fund given the long term debt service and equipment replacement requirements. **However, due to the City's required contributions (\$192,311/year) to the Governor's bail-out plan for the State Budget, there will not be sufficient revenues to meet anticipated expenditures in the next two fiscal years.**

As has become a tradition, reductions to revenue subventions to local government have been identified as components of the Governor's proposed "budget solution." Under the Governor's proposal, non-education local governments will contribute \$1.3 billion in fiscal years 2004-05 and 2005-06, to supplement State contributions for financing schools operations. Our fiscal plan anticipates reductions in Jail Booking Fee reimbursements (\$101,971) and reductions in the Motor Vehicle License Fee offsets (\$192,311) from the City's General Fund and \$23,150 from the City's Redevelopment Fund. At the time of preparing this budget document, it remains unclear if the State Legislature will adopt the Governor's recommendation, as the Office of the Legislative Analyst has offered an alternative financing proposal. However, the League of California Cities and its local government partners (CSAC & CRA) have agreed to the proposal. In exchange for an agreement not to fight the loss of the VLF offset revenues the Governor has promised to support a Constitutional Amendment on the November ballot which would protect local government from any further revenue reductions. As was the case last fiscal year, **if additional reductions are enacted by the State Legislature (beyond the amounts identified above), the City Council will have to revisit the budget during the fiscal year.**

The 2004-05 budget proposal is part of a long-term development from which the seeds for programs have been sown in previous years. We are not proposing elimination of any programs. The basic services from last year are proposed for continuation.

BUDGET OVERVIEW

Taken as a whole, this financial plan anticipates spending approximately \$1.89 million more than will be collected in revenue, during the coming fiscal year. This will result in reductions in special revenue and enterprise fund balances for the completion of capital projects. The reasons for expenditures exceeding current revenues can be attributed to capital expenditures for sewer and wastewater treatment facility improvements.

GENERAL FUND

Existing budget policy provides that total prior year appropriations for General Fund functions shall be adjusted annually by the percent change in the Bureau of the Census "All Urban Consumers" price index. For the 2004-05 fiscal year the growth factor was estimated to be 0.5%. As this amount was deficient for funding increases required to sustain the operations of existing programs at current service levels, additional funds were allocated to individual departments on a maintenance of effort (MOE) basis. Because of the State's diversion of local revenues, expenditure appropriations could not be funded at this level without significant reductions to the City's General Fund reserves. Accordingly, all General Fund departments funding requests were reduced by 2.5%, hiring for staffing vacancies for three positions in the police department were frozen, other departments reduced staffing (voluntarily) by two positions, and a reduction to employer required retirement contributions was secured from CalPERS with the cooperation of the City's employee associations.

This preliminary budget (presented to the Council) represents the best professional opinion of the staff and the City Council's best judgment regarding level of services that are felt necessary to accommodate the needs of our citizens. The staff defers to the final judgment of the City Council in deciding any funding issues that may be unresolved. The staff stands ready to meet the commitment of the City Council as reflected in the final version of the budget.

Be assured that despite the fiscally conservative budgets that we continue to adopt, the city will maintain its traditionally high level of professional service to our community. The establishing and maintaining of strong cash reserves over the past nine fiscal years attests to the City's perseverance in meeting ongoing fiscal challenges in innovative and creative ways, and is key to limiting and minimizing the effects of the State's response to its own budgetary crisis.

I want to acknowledge the dedicated and tireless work of Finance Director, Richard Loomis, who unfailingly does a remarkable job facilitating the preparation of this budget document, and continues to provide leadership in managing the fiscal affairs of the City of Auburn.

Respectfully submitted,

Robert Richardson
City Manager

COMMUNITY PROFILE

Majestic views of the American River Canyon, vistas of the Sierra Nevada Mountains, wooded hills and ravines, and streams winding through small valleys characterize the site of the City of Auburn. From its origins in the 1850's, Auburn has emerged as a community of strong historic character, yet serves as a growing economic center. Today, the City comprises approximately 7.5 square miles (this includes the Auburn Airport and Wastewater Treatment Plant) with a population of 12,634.

The location of the City of Auburn is important in order to understand the relationship between growth and development in the foothill terrain and physical limitations. The City is located on the western slope of the Sierra Nevada Range at elevations between 1,000 and 1,400 feet. This provides the advantage of being above the valley fog and below the Sierra snow line. At the crossroads of I-80 and Highway 49, Auburn is the county seat of Placer County and an important retail trade center.

Throughout the years, the City of Auburn and surrounding foothill environs have grown steadily, slowing to a gradual growth rate over the past four years. The unincorporated areas to the north and east of Auburn have continued to urbanize resulting in an Auburn urban area population of approximately 30,000.

The City of Auburn and surrounding Auburn areas continue to attract large retailers and new businesses. The City is emerging as a destination point for those enjoying the variety of activities available in the area from white water rafting, horse back riding, and hiking to the historic ambiance of the Old Town and Downtown areas providing unique shopping and dining experiences. In combination with growth the City continues to preserve its unique character and its sense of history.

City Council

Meets on second and fourth Mondays of each month, 6:00 p.m. in the Council Chambers; Study Sessions held on first, third, and fifth Mondays on a as needed basis.

| | |
|--------------------|-------|
| J.M. (Mike) Holmes | 11/06 |
| Cheryl Maki, Mayor | 11/04 |
| Kathy Sands, | 11/04 |
| Kevin Hanley | 11/06 |
| Alice M. Dowdin | 11/06 |

Historic Design Review Committee

| | |
|------------------------|-------|
| Lynn Carpenter/Bus Rep | 11/97 |
| Vacancy/Property Owner | |
| Barbara Nichols | 2/02 |
| Sandra Elder | 6/07 |

Planning Commission

| | |
|-----------------|-------|
| Annabell McCord | 11/04 |
| Jodie Hale | 11/04 |
| Beryl Smith | 11/06 |
| Keith Nesbit | 11/06 |
| Bob Snyder | 11/06 |

Appointed Officials

| | |
|--------------|-------------------|
| City Manager | Robert Richardson |
| Police Chief | Nicholas Willick |

Contract Officials

| | |
|---------------|----------------|
| City Attorney | Charles Wachob |
|---------------|----------------|

Elected Officials

| | |
|------------|-----------------|
| City Clerk | Joe Labrie |
| Treasurer | George Williams |

Department Heads/Managers

| | |
|-------------------|----------------|
| Building Official | Vacant |
| Fire Chief | Mark D'Ambrogi |
| Community Dev. | Wilfred Wong |
| Finance/Personal | Richard Loomis |
| Public Works | Thomas Fossum |
| Airport Manager | Jerry Martin |

Airport Commission

Staff: Jerry Martin, Airport Mgr.

Telecommunications Commission

| | |
|----------------|-------|
| Scott Barrow | 01/07 |
| Mark McDonald | 01/07 |
| Michael Malvey | 12/04 |
| Raymond Tonkin | 01/07 |

| | |
|-------------|-------|
| Tom Maguire | 12/04 |
|-------------|-------|

Library Advisory Board

| | |
|-----------------------|-------|
| Dr. Robert Schnetzler | 07/05 |
| Janeene Coleman | 12/07 |

Traffic Committee

Tom Fossum, Public Works Director
 Nick Willick, Police Chief
 Robert Richardson, City Manager
 Jodie Hale, Planning Commissioner
 Bob Snyder, Alternate

Arts Commission

| | |
|---------------------|-------|
| Mariko Leonard | 08/03 |
| Talmadge Lewis | 11/05 |
| Sue Dings | 08/03 |
| Laura McNicholas | 10/05 |
| Louis Burda Gilbert | 10/05 |
| Randy Mealhow | 10/05 |
| Everett Jensen | 08/07 |

Historic Preservation Task Force

Dissolved

Economic Development Committee

| | |
|-----------------------------------|-------|
| Rod Gross | 12/05 |
| J. Randall Smith | 12/04 |
| R. Monti Reynolds | 12/04 |
| Gary Moffat | 12/04 |
| Harvey Roper | 12/05 |
| Kathy Sands, Councilmember | |
| J.M. (Mike) Holmes, Councilmember | |

Annexation Committee

Dissolved

Endurance Capital Committee

(Resolution 04-43)
 Western States Endurance Run
 Economic Development Committee
 Western States Trail Foundation
 Auburn Endurance Club
 Triathlon Events
 Cycling Events
 Service Clubs
 Businesses at Large

GLOSSARY OF BUDGET TERMS

Appropriations-Amounts of money authorized to be spent during the fiscal year.

Assessed Value-The Value of property used as basis for levying property taxes.

Assessments-Levies which pay for improvements directly benefiting their property.

Available Balance-Cash credited to fund that is not reserved for another purpose; excludes portion of fund balance which is not “liquid” in nature, such as loans due, inventory or property, receivable.

Bonds-Proceeds from the sale of debt; the principal which must be repaid with interest.

Carryover-Cumulative savings of a department under ECB budgeting, which is available for expenditure in subsequent years. Any unspent appropriations are added to carry over.

CPI-Consumer Price Index; measure of inflation in an area of consumer products.

Debt Service-Payments of principal and interest on indebtedness incurred to finance the construction of a capital project.

Department Revenue-Selected fees, charges, rent or other income derived by a department from its own activities. Department carryover is ECB appropriation less expenditure plus department revenues.

Encumbrance-Reservation of funds for expenditure at a future date, usually under a purchase order.

Expense-As the authorization to spend is exercised, an appropriation becomes an “expense” or “expenditure”, i.e., the amount expended.

Expenditure Control Budget (ECB)-Method by which General Fund money for the City’s departments is appropriated.

Fiscal Year-The 12-month accounting period used by the City, from July 1, through the following June 30.

Fund-A separate set of accounts used to record receipt and use of money restricted for specific purposes. The City’s Treasury is made up of **35** separate funds required by the City, state or federal government, or by proper accounting practice. Fund types include the following:

- The **General Fund** receives all unrestricted money which pays for the majority of departmental spending for traditional City services.
- **Special Revenue** funds are revenues earmarked for specific purposes.
- **Debt Service** funds are used to repay the principal and interest on indebtedness.
- **Capital Project** funds are used to account for construction of major public facilities.
- **Enterprise funds** are self-supporting activities financed by users and operated similar to private businesses.
- **Trust funds** are used to account for assets held by the City in a trustee capacity.
- **Agency funds** are used to account for assets held by the City as an agent or to facilitate proper financial reporting.

Fund Balances-The excess of the total assets of a fund over its total liabilities and reserves.

Governmental Funds-This includes the general, special revenue, debt service and capital project funds. They are accounted for on a financial flow basis, measuring available spendable resources and changes in net current assets.

Indebtedness-Amount of principal due on outstanding bonds, interfund loans, and accrued employee benefits.

Interest-Income earned on the investment of available cash balances.

Interfund Transfers-The reallocation of money from one fund to another.

Intergovernmental-Revenues shared with the City by the State (such as the Gas Tax), Federal government (such as CDBG), or other agency.

Operations-Departmental costs for employees, contract services, repairs and maintenance, internal services, supplies and other expenses. Over 62% of operation costs are personnel-related.

Other Income-Includes property sales and income from sources that are not assignable to regular activities or funds.

Projects-Long-term investments in public facilities and infrastructure; also known as capital improvements. Amounts spent may vary widely from year to year.

Proprietary Funds-There include the enterprise and internal service funds. They are accounted for in a manner similar to businesses, measuring cost for services and including total assets and liabilities.

Redevelopment Agency-Separate legal entity created to alleviate conditions of blight, build infrastructure and promote economic development. The Agency receives property tax revenue on assessed value growth within these areas called “tax increments” to repay Agency indebtedness.

Revenue-Money received from taxes, licenses, permits, interest, fees for service, bonds or from other governments by the City during the fiscal year.

Subventions-Intergovernmental revenues paid to the City by another government, such as the State.

Taxes-Involuntary taxation on forms of wealth (such as property), transactions (such as taxable sales), or other forms of economic activity (such as operating a business, building a house, or staying in a motel).

Total Budget-The total of Revenues plus beginning Available Balance, which equals Expenses plus ending Available Balance.

Unfunded Liability-Amount of future obligations not covered by assets currently set aside for that purpose, such as accrued vacation leave payable at termination or actuarial-determined future insurance claims.

User Fees-Charges of a voluntary nature paid by persons receiving a service in exchange for the fee (such as recreation activities or sewer service fees).

SCHEDULE OF CITY FEES

| FEE OR TAX | LEVIED | RATE OR BASIS FOR LEVY |
|-----------------------------|---------------|--|
| Property Tax | Annual | 1% of assessed value (City share 18-24%) |
| Business License Tax | Annual | Varying percentages of gross receipts |
| Sales Tax | Transaction | 1.25% of taxable sales (total rate is 7.25%) |
| Real Property Transfer Tax | Transaction | \$0.55 per \$500 sales price less encumbrances |
| Transient Occupancy Tax | Transaction | 8% of lodging |
| Sewer Service Charge | Monthly | \$35.00/per month/per household. |
| Garbage Service Charge | Monthly | \$15.27/monthly/curbside can |
| Sewer Connection Fee | Bldg.Permit | \$3,500 per Single Family residence |
| Building Permit | Bldg.Permit | Based on Bldg Standards Publication -- Ordinance Table 3-A |
| Plan Check Fee-Building | Bldg.Permit | 65% of building permit |
| Plan Check Fee-Fire | Bldg.Permit | 20% of Building Plan Check/UFC |
| Fire Inspection | Annual | Based on UFC |
| Plan Check Fee-Public Works | Bldg.Permit | 20% of Building Plan Check |
| Inspection Fee - P.W. | Transaction | 5% of Public Improvement Value |
| Plan Check Fee-Planning | Bldg.Permit | 20% of Building Plan Check Fee |
| Encroachment Permit | Transaction | 5% of Project Cost or \$37.00 minimum |
| Electrical Permit | Bldg.Permit | 1% of Project Cost - \$40.00 minimum |
| Plumbing Permit | Bldg.Permit | 1% of Project Cost - \$40.00 minimum |
| Transportation Permit | Transaction | \$16.00 Single trip / \$58.00 Annual |
| Heating Permit | Bldg.Permit | 1% of Project Cost - \$40.00 minimum |
| FEP Fee | Transaction | \$2,750/residence, \$0.85 sq. ft. comm. |
| State SMIP Fee | Bldg Permit | .0001 of value res. & .00021 comm. |
| Vehicle Storage Fee (APD) | Day | \$51.00 |
| Penal Code Registrants | Annual | \$40.00 |

RATES IN EFFECT AS OF June 30, 2004

Note 1-Effective July 1; rate varies based on service.

BUDGET PROCESS AND POLICIES

FINANCIAL PLAN

The purpose of the Financial Plan is to demonstrate fiscal solvency over the long term, to provide early warning of adverse trends, and to improve financial planning and policy making for the allocation of scarce budget resources.

The financial model generates revenue forecasts and estimates future year operating and project costs on a consistent basis for all funds. The Financial Plan's projections may or may not occur as predicted, depending upon changes in the economy, future service level changes, and the mandates of other governments. During the year, the Finance Department will update the computer model quarterly, based on actual experience and the latest available information on economic trends.

AUBURN FINANCIAL MODEL

Traditional "line-item" budgeting practices focus on resources and service levels estimated for any given budget year. Given the sensitive nature of many revenue sources it became clear that the City must develop a means of not only projecting financial requirements for the current year, but anticipate future resources and demands as well.

Beginning with its 1994-95 fiscal year budget, City staff has presented quarterly financial status reports to the City Council in a more concise "cost element" format. This fiscal model reports expenditures for each department, by expenditure component (i.e. salaries & benefits, materials & supplies, and capital equipment). For this budget, historical financial information for the current and the past five (5) fiscal years is presented for the City's General Fund, to facilitate year-to-year comparisons.

THE BUDGET PROCESS

Budget planning began at mid fiscal year, following completion of the audit for the fiscal year ending the prior June 30, and a review of the first six months of actual revenues and expenditures for the current fiscal year. In April and May, the City's departments began the task of updating information for the estimate of operating expenses for the next fiscal year. The impact on operations of capital projects, legislation and economic factors was reviewed by the Finance Director and the City Manager to determine whether adequate funds exist to meet requests, while maintaining adequate reserves. This year maintenance of effort (MOE) target allocations were submitted by departments heads and then reduced for non-essential expenses, when the revenue forecast indicated that a balance between current year expenditures and

revenues could not be achieved, given the additional tax revenue (\$192,311) and subvention (\$100,971) shifts required by the State.

This recommended budget document will be released to the City Council in June. A Public Hearing(s) will be held in June, to allow for discussion on major issues. Ideally, the budget will then be adopted at a public meeting at the beginning of the new fiscal year (July 2004).

BUDGET CONTROL

The approved budget will then be entered in the City's accounting system, which will provide on-line access for up-to-date financial information.

- **Departmental budgets** are established by the City Council, on the recommendation of the City Manager and the Finance Committee. The departmental budget is then managed and controlled by the respective department head.
- **Operating budgets** are controlled at the departmental level. While cost-element expenditures are shown in 2004-05 year's budget, the intent of this information is to provide internal budget monitoring controls, and are not intended to be explicit appropriations by the City Council. The City Council may transfer appropriations from reserves to departments during the fiscal year. This "bottom line" approach is intended to prioritize overall City spending, while making department heads accountable for internal operations and expenditures.
- **Project budgets** are adopted for capital project funds; these budgets may span a number of years. Multi-year projects are budgeted on a year-by-year basis. For each project, subsequent City Council approval is required for approving bids and contracts, and for project cost increases in excess of 10% over budget authorization.
- **Debt service** budgets are established when the debt issue is authorized by the City Council.

The statistical sections of the budget are prepared on a "cash basis of accounting" in order to match available financing sources with current expenditures and minimize the need for external borrowing to finance City operations. Financial Statements will continue to be prepared on the "modified accrual basis of accounting" in accordance with Generally Accepted Accounting Principles (GAAP). Under this reporting standard, revenues are recognized in the accounting period in which they become measurable and available, and expenditures are recognized in the period in which the liability is incurred.

Proprietary funds (enterprise and internal service) are reported on a full accrual basis, but their budgets include expenditures for capital outlay and the debt service, while non-cash

expenditures such as depreciation and bad debt write-off are excluded from the budgeting process.

The primary purpose of the budget is to provide the City Council with the truest picture of the total available resources, to set spending priorities, and to account for and allocate cash flows from the various funds. The non-GAAP format of portions of this budget (non-enterprise funds) accomplishes these objectives more clearly than would strict adherence to traditional accounting principles.

POLICIES

Listed below are a summary of the City's current budget and fiscal policies:

Expenditure Control Budget (ECB)

Total prior year appropriations for General Fund functions shall be adjusted annually by the percent change in the Bureau of the Census "All Urban Consumers" price index. For the 2004-05 fiscal year the growth factor was estimated to be 0.5%. As this amount was deficient with funding increases required to sustain the operations of existing programs at current service levels, additional funds were allocated to individual departments on a maintenance of effort (MOE) basis.

Beginning July 1, 1996, unexpended prior year appropriations have been be carried forward into the next budget year to the credit of the respective departments, split equally with the General Fund starting in fiscal year 1995-96. Accordingly, departments have received 50% of prior year carryovers beginning in fiscal year 1996-97. The 1994-95 fiscal year established a baseline for future ECB budgets.

The Expenditure Control Budget (ECB Model) will show overall General Fund appropriations by department. City Council approval is required to transfer General Fund operating budget appropriations between departments. The budget stipulates continuation of existing service levels, and City Council approval is required for significant changes in service levels.

After adoption of the budget, if the total resources, as estimated by the Finance Director, are insufficient to support the current level of appropriations and established emergency reserve levels, the City Manager shall report the financial shortfall to the City Council and present appropriate recommendations for alleviating that shortfall. The City Council shall, by resolution, adopt budget amendments which reduce appropriations as necessary. If no Council action is forthcoming within 45 days of the City Manager's report, the City Manager shall reduce the total amount of General Fund departmental appropriations accordingly, on a uniform percentage basis.

Long-Term Financial Planning

The annual budget shall include a financial plan incorporating capital projects and debt financing needs, and the effect on operations of inflation and new capital facilities. This Financial Plan shall be in general conformance with the General Plan. Revenue estimates for all funds shall be conservative but realistic, and be generated in a consistent manner from the growth and economic assumptions contained in the City's General Plan.

Financial Accountability

To ensure the timely and comprehensive review by the Council of the City's progress in maintaining the financial soundness of the General Fund, the Finance Department shall report quarterly on revenues and expenditures received to date, projected trends, and comparisons to baseline estimates; staffing levels; and local economic indicators.

General Fund Balance

Prior to FY 2003-04, the General Fund was required to maintain ending cash and current receivable balances, including carryover and reserves, of at least 8% of the approved budget (no less than \$599,492 for FY 2003-04). The policy of setting a reserve based on a "fixed percentage" reserve formula was replaced by the City Council in October of 2003, in favor of establishing a reserve for the City's General Fund based on the quantitative evaluation of specific fiscal risk exposures. For the last fiscal year, this amount has been determined to be the sum of \$2,990,550. This is the minimum needed to maintain the City's credit worthiness and to adequately provide for economic uncertainties, cash flow needs, contingencies or local disasters. Additionally, the current year recommended budget provides for a General Fund contingency appropriation of approximately 2.0% (\$152,699), and a Cash Reserve for emergencies, capital replacement and payroll liabilities in the amount of \$2,770,363.

Revenue and Expenditure Balance

Annual operating expenditures shall not exceed annual revenues available for such purposes unless authorized by City Council. For the next fiscal year the recommended shortfall is \$101,304.

Capital Project Commitments

Capital projects for which funds are appropriated in the budget year shall have those funds restricted for use for that project. Such appropriation will continue to be valid in subsequent fiscal years until the project is completed or terminated, if the City has entered into a contractual

commitment for project costs. Unexpended capital project appropriations shall only accrue interest if specified by the original funding source as a condition of funding the project. If a capital project requires an additional appropriation in excess of 10% of its current total authorized budget, then City Council approval shall be required.

Recognizing the potential volatility of development-related revenues, no more than 75% of the estimated revenues and accumulated fund balance, for development oriented funds, that are budgeted for capital projects shall be committed prior to actual revenue collection.

Capital projects will be included in each fund's operating budget. For instance, a capital improvement project related to the airport, can be found in the Airport Enterprise Fund operating budget.

Enterprise Activities

All activities similar to any profitable business enterprise shall charge and collect fees adequate to fully fund the activity including working capital and reserve capital requirements, unless expressly authorized for General Fund subsidy by the City Council.

Unfunded Liabilities

Any net General Fund revenues available at year-end shall first be applied by the Finance Director to meet unfunded liabilities and reserves identified in any actuarial studies, audits, or other analyses.

Personnel Practices

Recruitment of new employees, promotions, and reclassifications of existing employees may have an impact on the City's General Fund. The City Council may discuss recruitment, promotions and reclassifications of employees in order to exercise direction and control necessary to be accountable to the community for the City's fiscal circumstances, however all City personnel matters remain the final decision of the City Manager. These discussions may take place in Closed Session as allowed under State Law.

The employee classification plan may be amended from time to time to create, revise or abolish classes of positions, as determined by the City Manager. Each classification shall be assigned a range in the salary schedule so that all positions substantially similar with respect to duties, responsibilities, authority and character or work receive the same schedules of compensation. The proposed Schedule of Salaries (effective 10/01/04) has been included in this budget for approval (S-2). The amounts displayed include the third (and final) annual incremental adjustment to the wage rates recommended by Johnson & Associates, as adopted by the City Council in November 2002.

BUDGET OVERVIEW: FISCAL YEAR 2004-05

The 2004-05 Budget is a comprehensive financial plan for all governmental units of the City of Auburn. The primary purpose of the Budget is to make decisions about how the City will spend the financial resources at its disposal, including what types of programs will be funded and at what level. Another important goal of the Budget is to inform the citizens of our community about the City's financial and programmatic activities. Finally, the Auburn Budget is a long-range planning tool that allows citizens to quickly see the long-term trends that will effect the City in future years.

At first glance the City's Budget is complex because of the large number of funds and programs. The central portion of the Budget is the General Fund, which is the primary operating budget of the City. Other major elements include the Airport Fund, the Sewer Utility, the Transit system, the Transportation system, and other activities. The 2004-05 "total revenue" for all budgeted activities (excluding interagency transfers), is \$19,311,690.

The annual budget process involves a detailed look at all of the different funds and their interrelated transactions. The budget process ensures that trends which will impact governmental revenues and expenses are identified as early as possible.

While most budgetary decisions are made on a unit by unit basis, it is helpful to start with a summary look at all of the City's finances to provide some perspective on the scope of activities and the magnitude of the costs involved in providing them.

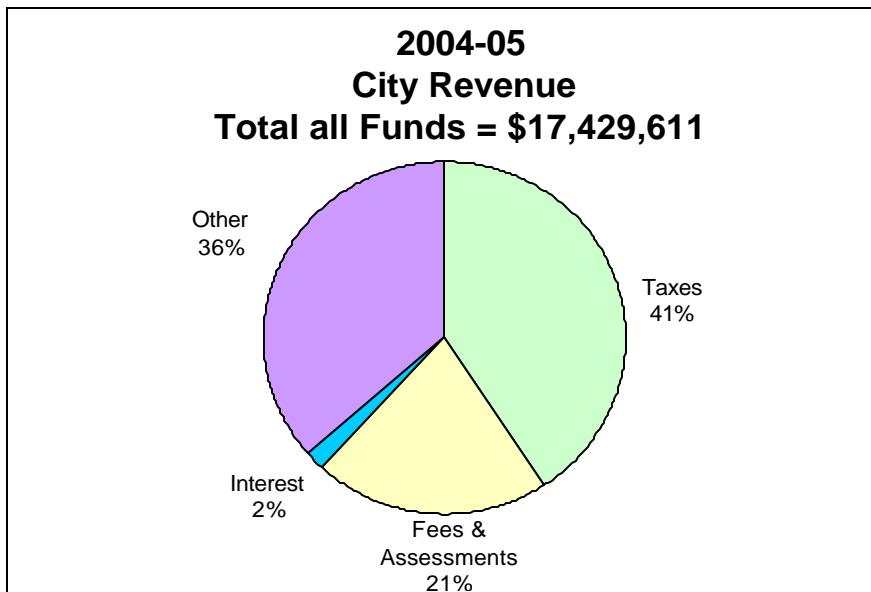


Figure 1

As shown in Figure 1, the total revenues received by all units of government in 2004-05 is expected to be \$17.43 million. The principal sources of these revenues are taxes, fees, assessments, transfers from State and Federal government, and interest. By comparison, total revenues budgeted in 2003-04 were \$19.31 million.

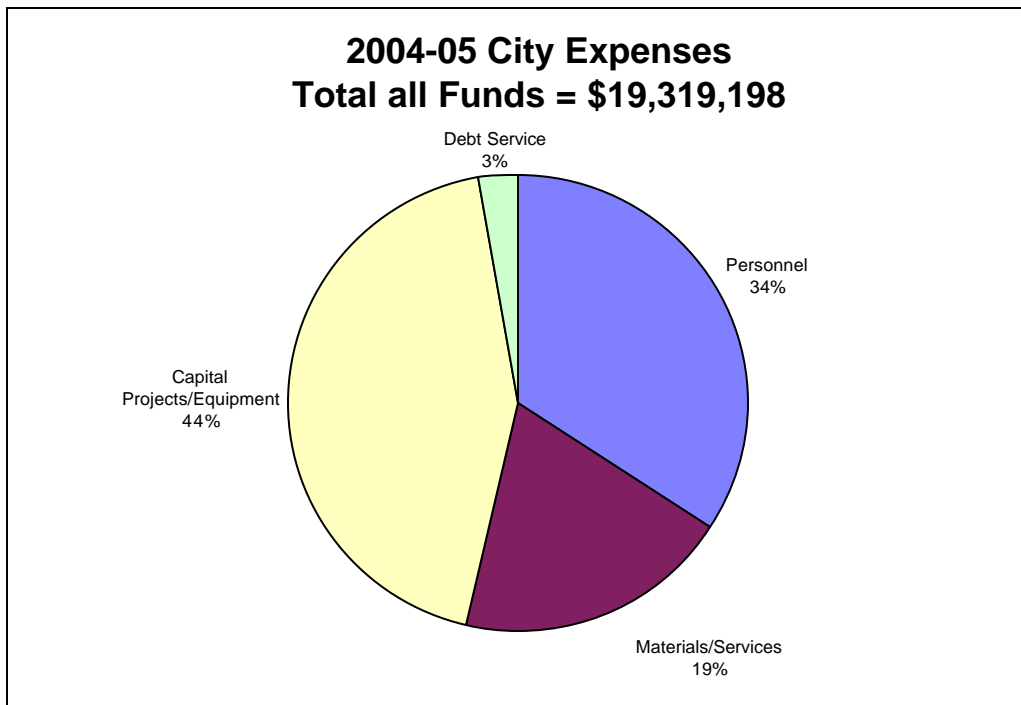


Figure 2

Anticipated expenditures (excluding interagency transfers) for 2004-05 total \$19.32 million, and are summarized in Figure 2. Expenditures are divided between operations costs, debt service and capital improvement projects. Total expenditures budgeted for 2003-04 were \$25.49 million.

Taken as a whole, these figures indicate that the City will be spending approximately \$1.89 million more than it will collect (total of all funds) in revenue during the coming fiscal year, with the result that fund balances and reserves will be decreased by that amount in selected funds. The primary reasons for the excess of expenditures over revenues can be attributed to capital expenditures for sewer and wastewater treatment facility improvements.

The following pages look at the various operations and funds of the Auburn City government and their respective plans for the coming year. Since the financial environment within the City is a critical issue, the most reasonable place to start is with a look at the underlying economic forecast used by the City.

ECONOMIC AND DEVELOPMENT FORECAST

As part of the City's budget preparation process, certain assumptions have to be made about the prospects for the local economy and the wider economic climate of which Auburn is a part. Auburn is heavily affected by the national and state economies, in particular because it is located in a high-growth area where new and expanding companies prefer to locate their facilities. The health of the state economy is also an important factor because the City receives a large portion of its revenue from the state government, which in turn requires a strong economy to maintain its tax revenues.

Forecasting the state and local economies is a difficult undertaking. The City has a large number of different revenue sources to track, all of which are affected differently by underlying economic conditions. Forecasting is also complicated by the sporadic rate of internal growth that the City experiences from time to time. For example, while certain revenues like property taxes grow at a fairly predictable rate, revenues from building permits and development fees may vary dramatically from year to year, depending largely on the economy.

GENERAL ECONOMIC FORECAST

With substantial gains in sales tax revenues generated, the City reached a new plateau (in the 2002-03 fiscal year), at a significantly higher level, that exceeds the previous high collections in fiscal year 1996-97. It is clear that the national economy is going through a period of restructuring as it adjusts to the post-Cold War changes in defense spending and internationalization of markets. Most experts are forecasting a steady but slow rate of growth in the economy, with long-range growth dependent on controlling health care and social service costs and reorienting Research and Development and manufacturing activities towards peacetime industries. The City's revenue forecast for 2004-05 anticipates that the current activity levels will be maintained, but will only enjoy modest increases, from this point forward.

California is still struggling with economic challenge of relatively high costs of doing business and aggressive competition from other states and countries. In the early 1990s the total personal income for residents in the state fell some 2.8%, after having experienced an average annual gain of 3.2% from 1970 to 1990. While it is likely that there will be modest gains in the California economy in the next few years, most economists consider it very unlikely that the robust growth rates of the 1980s will be repeated at any point in the next decade.

In the Placer County area, most forecasts indicate that 2004 and beyond will see modest gains in personal income and retail sales. Of particular concern are Placer County employers planning for downsizing during the next twelve months; specifically: Hewlett Packard, Nippon Electric Company and Coherent Incorporated. Conversely, continued growth in non-manufacturing businesses in western Placer County and Sacramento County (Roseville and Folsom) have a positive effect on new residential housing development within the City of Auburn.

BASIC ASSUMPTIONS IN THE AUBURN BUDGET MODEL

The computer model which was used to create the 2004-05 Budget is based on a number of key assumptions, including the following highlights:

- Inflation will remain in the range of 2% to 3% during the next three years.
- Retail sales are expected to increase from 2003-04 level in the coming year, but only modest increases are anticipated in the next three years. In general, sales in Auburn during the 2000's will increase at a slower level than during the 1990's, in part because customers have more options to buy throughout Placer County, primarily in Roseville, as well as the un-incorporated area of Placer County, such as the North Auburn (Bell Road) area.
- The costs of capital construction will rise, but more slowly than inflation, rising from 1.5% to 2.5% over the next three years.
- The rate of earnings on City investments will average 3.5% in 2004-05, and will increase slowly over the next three years.
- Population is expected to grow at a rate of less than 2% per year over the next decade.

Commercial Forecast

The past several years have been marked by sizable levels of commercial and industrial construction.

Based on currently planned projects, the forecast is for only 40,000 square feet of private commercial and industrial development to be built in the years 2004-05 through 2009-10.

Residential Forecast

An important element of the City's economic forecast is the projection of new residential units. The number of new homes is perhaps the best indicator of growth in the City's population, which directly results in increased demands for infrastructure (streets and sewer) and government services (police, fire, and recreation.)

After experiencing a number of years of consistently high growth in residential units, the rate of residential construction has dropped significantly in the past five years. After a high of 209 units built in 1989, approximately 86 (single family dwelling) units were built in 2003. The housing industry locally reflects a switch in buyer preferences toward more expensive homes; however, a new moderate income housing project (Palm Terrace Apartments – 80 dwelling units) was completed in the Fall of 2003.

The City is now forecasting an annual average of 50 new homes, resulting from the strong demand for semi-exclusive housing from the Sacramento Metropolitan area. This long-term growth rate is consistent with the City's General Plan.

FINANCIAL TREND INDICATORS

The General Fund Budget recommended for the 2004-05 fiscal year, provides for adoption of a “balanced” spending plan (expenditure appropriations equal forecasted revenues). Over the course of the ten preceding fiscal periods the results of fiscal operations for the City’s General Fund has changed dramatically from a deficit condition (1993-94), to surplus (1994-95, 1995-96, 1996-97, 1997-98, 1998-99, 1999-00, 2000-01, 2001-02, and 2002-03), and back to a deficit condition last fiscal year (2003-04), and now (2004-05) a return to a balanced spending plan. The recent weakening in the City’s fiscal condition directly reflects the results of a diversion of motor vehicle licensing fees away for local government into the State Treasury. The revenue, expenditure and results of operations are illustrated in the following charts:

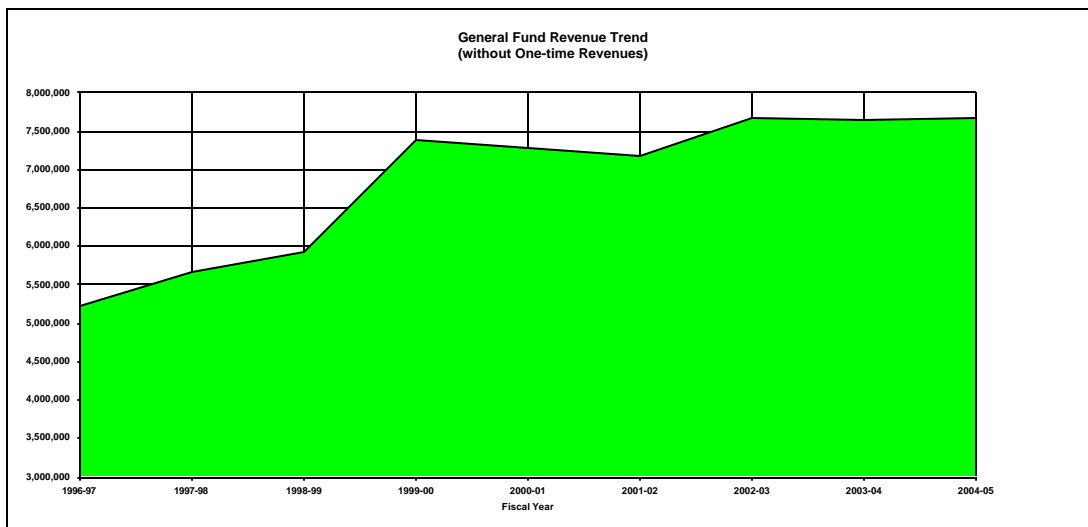


Figure 3

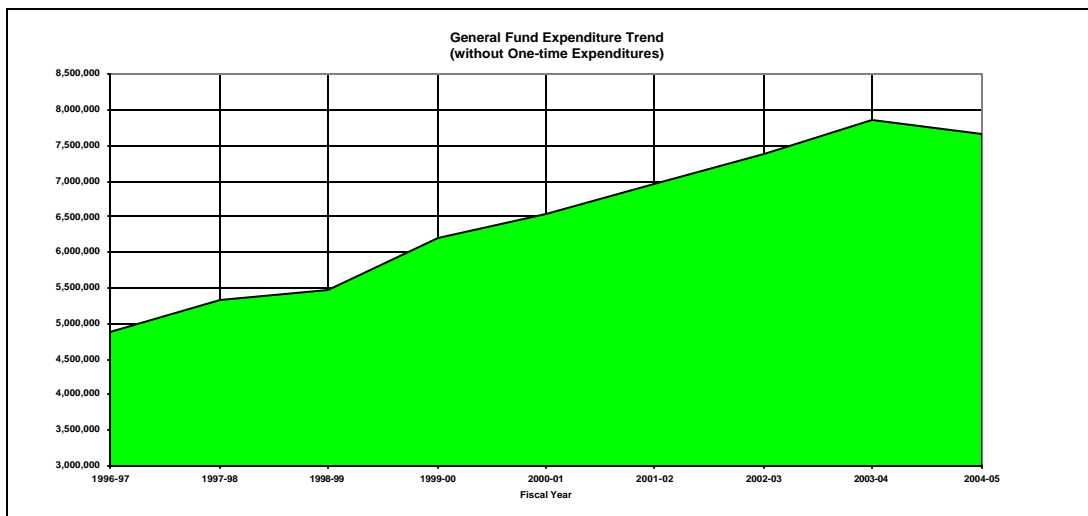


Figure 4

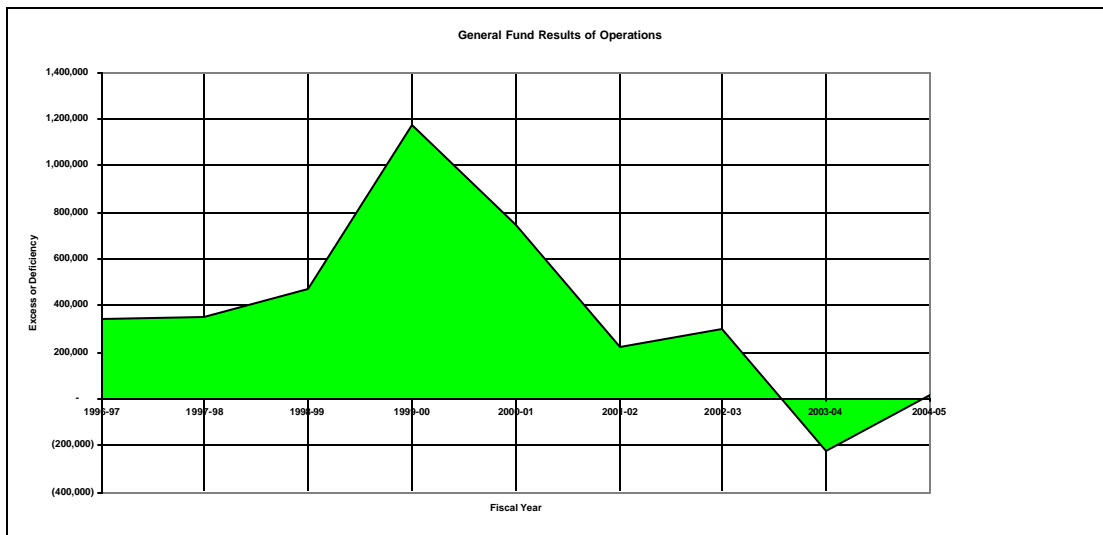


Figure 5

GENERAL FUND REVENUES

The General Fund receives all unrestricted money, which pays for departmental spending on the day-to-day operating costs of traditional City services like police, fire, planning, building, public works and administration. Major funding sources include property taxes, sales taxes, vehicle license fees, and development fees and permits. Most of the individual revenue sources are sensitive to changes in the economy, and most are not directly under the City's control. For example, revenue from property taxes and sales tax is set by state law and cannot be adjusted at the local level. One result of this situation is that the City faces considerable uncertainty whenever the State budget is in deficit and the Legislature is under pressure to divert municipal funding to other agencies or the State itself.

General Fund revenues are expected to perform above forecast in 2003-04, primarily due to a one-time (\$107,484) increase in the collection of Traffic Fine revenues. This revenue increase reflected correction of fine allocations by Placer County to the City over the past five years, as documented by an audit completed by the State Controller's Office. A comparable amount (\$120,921) was collected in property tax revenue growth (7.2%), during the last fiscal period. Unfortunately, the City's primary (37%) General Fund revenue source (sales tax revenue) did not grow, during FY 2003-04, due to stagnant retail sales most likely reflecting the leakage going into the Roseville shopping mall. This year's forecast incorporates the City's "best estimate" at revenues that will be received in the coming years, ***but it is important to note that anticipated State actions or a reversal of the general economic recovery could result in lower revenues.*** At the time of the printing of this revenue forecast, reductions in State subventions that are identified in the Governor's May Revise budget proposal for the coming fiscal year are included in our budget estimates. Specifically, we have eliminated the "Jail Booking Fee" reimbursements (\$101,971) received in the past five fiscal years, and we also reduced our property tax revenue estimate (\$192,311) for anticipated additional transfers to the State's General Fund (scheduled for the next two fiscal years). The Governor's budget proposal includes a "swap" of vehicle licensing fees for additional property tax, which we anticipate will continue indefinitely, and also a temporary substitution of additional property taxes for ¼-cent of the sales taxes normally collected by the City, on a temporary basis (two to five years). At this point, it appears that most of the funding for our Law Enforcement grants (in excess of \$100,000) will continue. Unfortunately, these programs are discretionary and may be suspended in response to the State's concerns for funding of its own programs and constitutional guarantees for funding of school programs. The City will not be certain of its State funding sources, until the State formally adopts its budget for next year. ***Any reductions in the identified revenues would necessitate significant reductions in the City's budget and/or a substantial drawdown against the City's cash reserves, in order to support the expenditure appropriations herein recommended for the City's General Fund.***

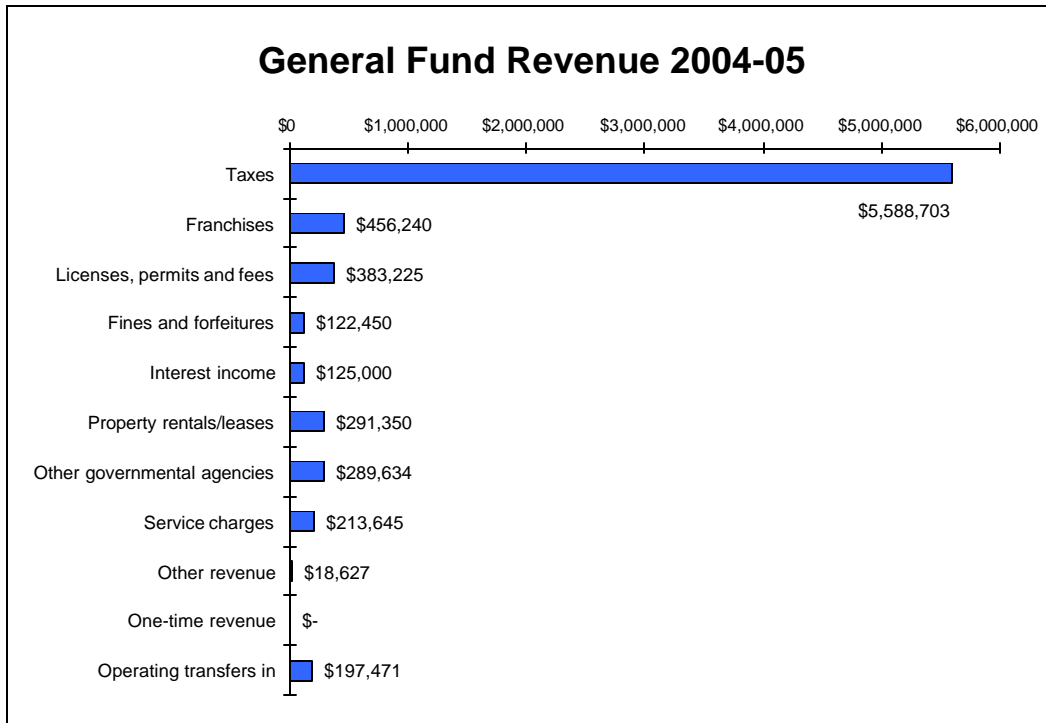


Figure 6

PROPERTY TAXES

Homes, businesses, and other taxable real and personal property are subject to a property tax rate of 1% of assessed value. Assessed value is based on the 1975 value of property with subsequent increases limited to 2% or CPI, whichever is less. However, when property ownership transfers, or when property is newly constructed, it is reappraised at its current full market value.

The General Fund receives about 18% of the total property taxes levied on property located within its pre-1983 borders, and 15% within areas annexed thereafter. 2004-05 property taxes are forecast to be \$1.8 million, which comprises 23% of General Fund revenues (down from 42% prior to Prop. 13). The Redevelopment Agency receives additional \$406,431 in property tax increment.

SALES TAX

The sales tax is the General Fund's largest single revenue source, projected at \$2.9 million for 2004-05, comprising 37% of total revenues. The sales tax revenue received by the City is equal to 1% of all taxable sales within City limits, with the remainder (0.25%) of the tax going to the State and Placer County's Transportation Development Act Fund.

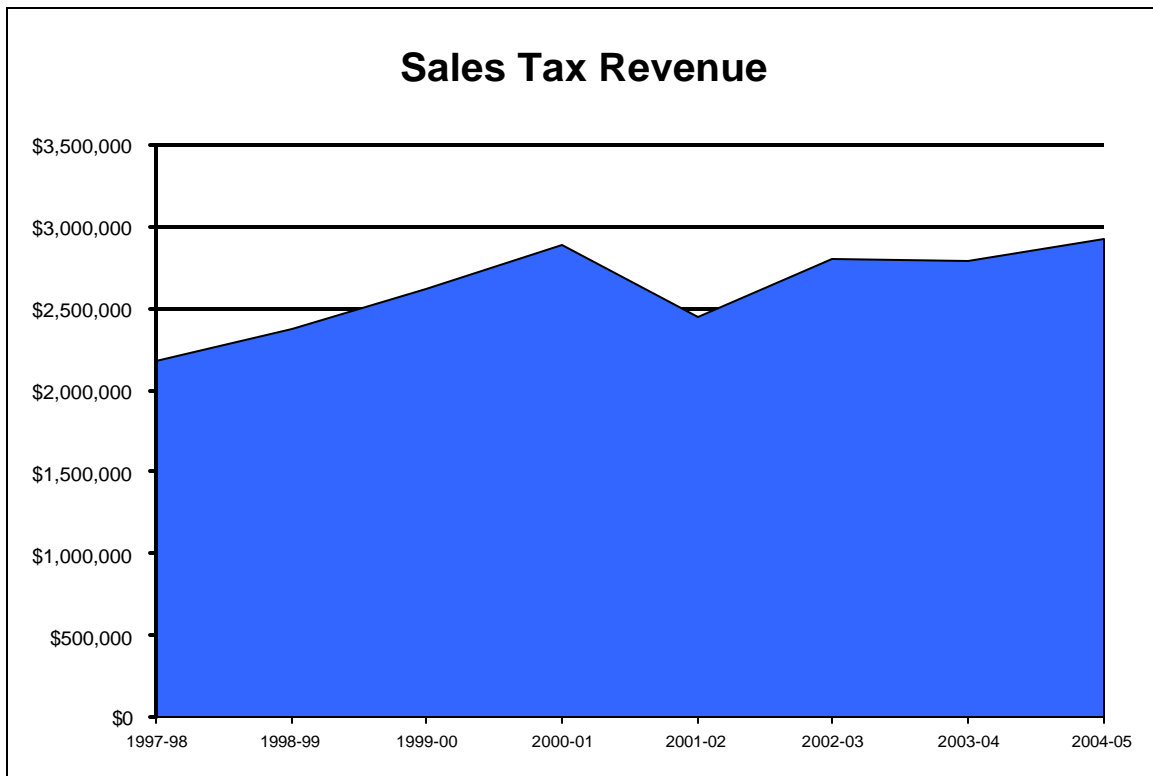


Figure 7

Sales tax revenue is estimated to be \$ 2,923,819 in 2004-05, which is a 3.0% increase from the preceding fiscal year. Absent rate increases, revenue collections are expected to increase at an average rate of 3.0% annually, over the next three years, based on Statewide retail sales estimates distributed by the State Board of Equalization.

OTHER GENERAL FUND TAXES

In addition to property and sales taxes, the City receives revenue from the business license tax, the real property transfer tax, and the transient occupancy tax. Together, these taxes comprise 3.6% of 2004-05 General Fund revenues.

Business License Tax

This is an annual tax on local businesses, based on gross receipts, under progressive tax rates. The City will receive \$147,500 from this source in 2004-05, which will be collected from approximately 1,650 merchants and building contractors.

Real Property Transfer Tax

The transfer of real property is subject to a tax of \$1.10 per \$1,000 of market sales price. The City receives half of the tax and Placer County the other half. 2004-05 revenue is estimated at \$84,955.

Transient Occupancy Tax

Occupants of motel/hotel rooms pay 8% of rent for stays of 30 days or less. Revenue growth depends on the number of rooms. Long-term growth is expected to be slow, as there are no plans for additional hotels, at this time. 2004-05 revenue is estimated at \$203,184.

FRANCHISES

Franchise payments are made by private utility company's for the right to do business in the City using public rights-of-way or a grant of franchise by the City. Franchise payments are estimated at \$456,240 for 2004-05, 5.8% of General Fund revenue.

Garbage

Auburn Placer Disposal pays 14% of gross income on residential and commercial garbage pick-up accounts in Auburn. Approximately 30% of the franchise fee is obligated for post closure monitoring and remediation of the Auburn landfill site at the municipal airport. The remainder of the franchise fees go into the general fund, as a discretionary revenue source. For 2004-05 General Fund revenue from this source is expected to be \$244,371.

Cable TV

Charter Communications pays a 5% fee of gross receipts for installation of cable lines (Cable TV rates are controlled by Charter Communications, subject to oversight by the City under new federal legislation). 2004-05 revenue is expected to be \$96,489.

Gas & Electricity

PG&E pays 2% of gross receipts on utility income for use of public right-of-way for gas pipes and electric lines. (PG&E sets utility rates subject to State PUC approval.). 2004-05 revenue is expected to be \$115,380.

Sewer

In 1999-00 the City discontinued the practice of having the Auburn Sewer Utility pay 1% of gross annual revenues into the general fund, as payments in-lieu of taxes (PILOT), pending resolution of litigation regarding the fiscal impact of Proposition 218. Based on the final outcome of the *Howard Jarvis Taxpayers v Roseville* lawsuit, staff recommends that these transfers be *permanently suspended*.

TOTAL FROM OTHER GOVERNMENTAL AGENCIES

Other governmental revenues make up 11.9% of General Fund revenues.

Vehicle License Fee

State residents pay a fee to the state each year that is computed as a percent (at one time 2%) of the depreciated value of their motor vehicles. This source grew steadily at a rate of approximately 11% annually, prior to 1991-92, but it fell below State estimates in that year due to the recession and law changes. The current forecast assumes that 2004-05 revenues will be significantly reduced to approximately \$104,757, with an additional sum of \$459,967 being allocated to the City as “additional property tax in-lieu of VLF backfill offsets” (\$652,278 [-] \$192,311). This exchange of revenues (as recommended in the Governor’s Budget) is the center piece of a proposal to permanently reduce VLF from 2% to 0.65%. At the time of preparing this budget, it remains unclear if the State Legislature is prepared adopt the Governor’s recommendation. The League of California Cities and its local government partners (CSAC & CRA) have agreed with the Governor’s proposal to give up \$1.3 billion (statewide - - \$350 million from cities) in each of the next two fiscal years, as part of the overall fiscal plan to rescue the State Budget. In exchange for an agreement not to fight the loss of the VLF backfill, the Governor has promised to reimburse the VLF loss (net of the 2-year funding contribution) with a return of Educational Revenue Augmentation Funds (ERAF) property tax revenues beginning in January of 2005.

Cops-In-Schools -- Federal Grant

In 1995-96 the City of Auburn applied for and was granted its first Community Oriented Policing Services (COPS) grant from the U.S. Department of Justice. This program provided for a 25% local match on the base salary of police officer positions, for a three (3) year period, with the federal government paying 75%. The program was modified under the Bush

Administration to provide for school resource officers (“Cops In Schools”) The City applied for and was granted an additional (5th) position beginning in the 2002-03 fiscal year. Revenue from 2004-05 is expected to increase to \$41,666, as grant funding is now available for only the second (most recently funded) school’s resource officer.

SERVICE CHARGES

Service charges are reviewed annually and set, along with the budget, by resolution. This class of revenues is highly sensitive to the level of residential and commercial construction taking place in the community. Building activity has been strong in recent fiscal periods with sustained growth in residential housing of 50 new housing units completed annually. Projections indicate that the City will receive \$222,700 in 2004-05 or 2.8% of the General Fund revenues.

Planning Fees

Includes fees to help defray expenses for processing various applications including tentative subdivision maps, use permits, variances, and civic design permits, as well as assure compliance with City General Plan, Municipal Code, and applicable state laws.

Building Plan Checking

Private building plans for construction, in accordance with the Uniform Building Code, are reviewed subject to a plan checking fee computed at 65% of the cost of a building permit.

Building Permits

These permits authorize construction, and are computed based on a declining rate (under 1%) of building value based on standard building costs. Separate permits are required per electrical, plumbing, heating and fire codes.

Engineering and Inspection Fees

Helps defray City costs of ensuring that engineering construction complies with applicable codes and City standards. Includes fees imposed on developer for administration of any assessment district financing for public improvement construction.

INTEREST INCOME

The City employs a prudent cash management program to ensure that all available funds are invested to earn the maximum yield consistent with the maintenance of reasonable safeguards for safety and liquidity. Invested money is pooled and each fund receives interest income based on

its share of daily cash balances. Rates of return averaged 8-11% for several years preceding 1991, but plummeting interest rates have lowered yields in recent years into the range of 4%. A return of 3.5% is forecast for 2004-05, due primarily to recent indications that the Federal Reserve Board will be increasing the federal funds borrowing rate over the course of the next twelve months. Significant reductions in investment interest rates have followed the unprecedented decrease in the “discount rates” adopted by the Federal Reserve Board over the past 39 months (aimed at generating the economic stimulus necessary to foster a recovery of the national economy). Interest comprised as much as 10% of General Fund revenues in the early 1980’s, but has fallen to approximately 3% in the proposed budget for 2004-05. The forecasted interest earnings may fluctuate based on market conditions and cash balances (which depend on the rate of spending versus revenue collection). The General Fund also receives interest from funds with minor balances (in lieu of charges for accounting services).

OTHER REVENUES

Other revenues account for \$18,627 or 0.2% of total 2004-05 General Fund revenues. They include: the sale of documents (\$5,000) and surplus property (\$2,000), Police Officer Training (POST) reimbursements (\$10,000), and insurance refunds related to temporary disability payments under the City’s Workers’ Compensation program (\$1,627).

ONE-TIME REVENUES

The City sometimes receives one-time revenues such as reimbursement of Wildfire Strike Teams from CDF, insurance recoveries, or land sale income. No revenues are anticipated from this type of revenue source for FY 2004-05.

TRANSFERS

The General Fund is also reimbursed for General Fund expenditures made on behalf of other proprietary funds. The Transit Fund, Airport Fund, Sewer Fund, and Redevelopment Fund reimburse the General Fund for the cost of staff support and management costs. Charges to (and reimbursements from) the enterprise funds total \$197,471, or 2.6% of the total 2004-05 General Fund revenues.

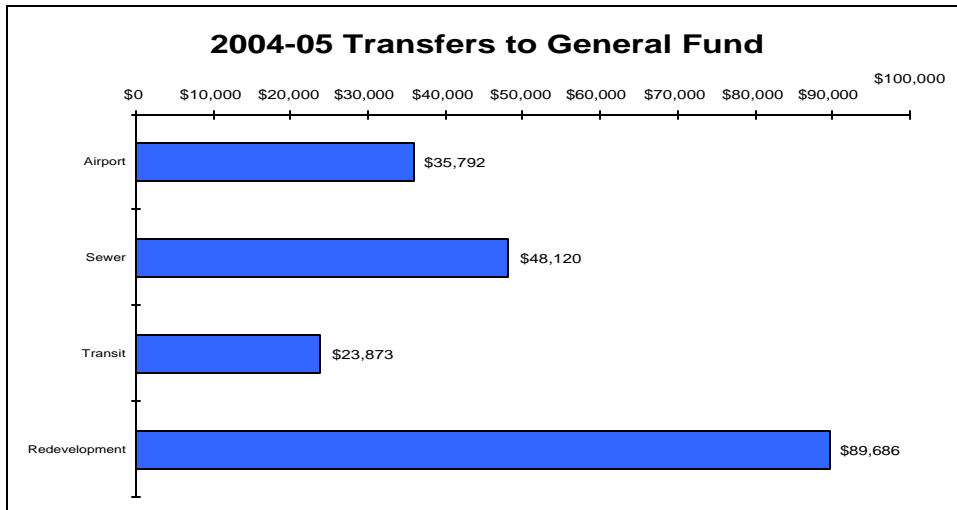


Figure 8

GENERAL FUND EXPENDITURES

ORGANIZATIONAL BACKGROUND

In Auburn there are six primary workgroups, under the direction of the City Manager and City Council, which spend General Fund revenues and perform the administrative and service delivery aspects of City government.

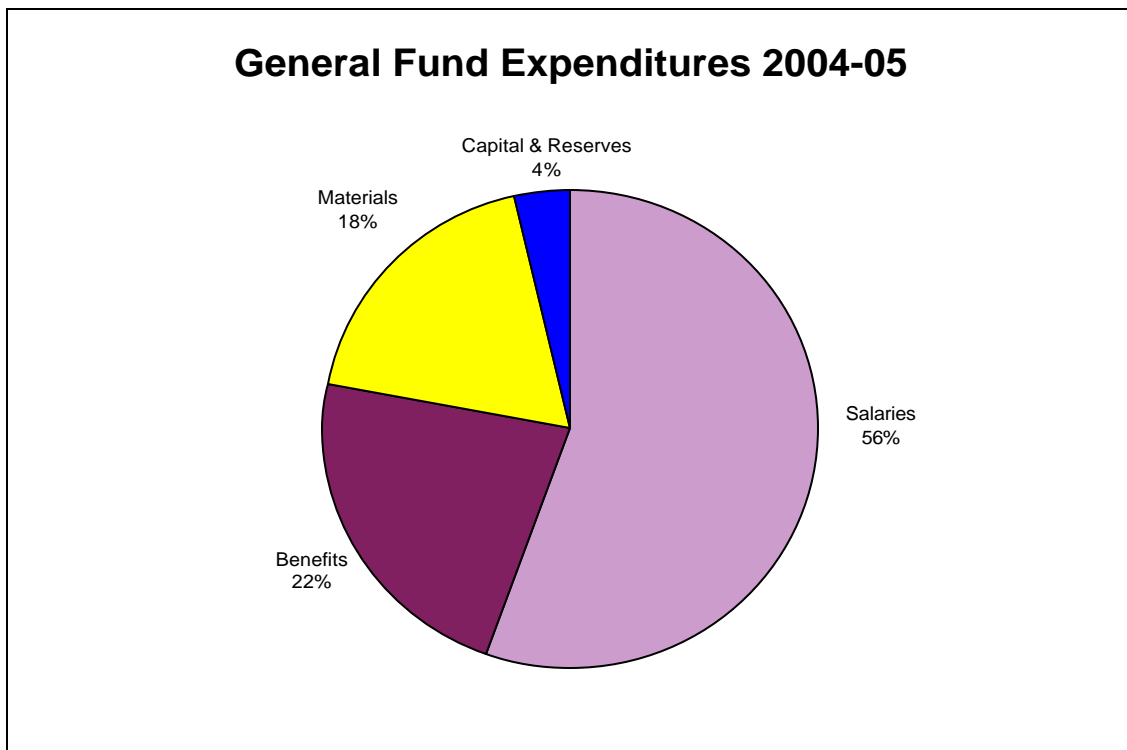


Figure 9

Administration

Is not a separate department in itself, but is a composite that includes the City Manager's Office, the City Attorney, City Council, City Clerk, and Commissions; these provide overall support and direction to the other departments.

Community Development

Provides urban planning, zoning, building (construction) inspection services, and coordinates economic development, redevelopment, and housing programs.

Finance

Provides support services to the other departments and the community, including revenue collection, accounting, budgeting and human resource and risk management.

Fire

Provides fire suppression, prevention, and medical emergency assistance.

Public Works

Designs, constructs, operates, and maintains the City's infrastructure system of streets, sewers, drains, (also landscaping and building maintenance of City owned properties and buildings), and manages the sewer and transit systems.

Police

Provides police protection, investigation, and general law enforcement.

EXPENDITURE CONTROL BUDGET (ECB)

The "expenditure control budgeting" system was designed and initiated in 1979 by the City of Fairfield as a response to the fiscal challenges posed by the passage of Proposition 13. The intent of the ECB is to hold down General Fund expenses while encouraging the greatest efficiency and flexibility by departments. Although this budgeting model has contributed significantly to the sound fiscal condition of the City, use of this budgeting methodology has been suspended in favor of a "maintenance of effort" (MOE) budgeting for FY 2004-05, in response to impact of the State's ongoing budget crisis.

When revenues are sufficient to cover appropriations, the ECB increases each department's budget by an amount that reflects inflation and growth in the community. Over the years this can allow departments to keep up with the increasing costs of labor and equipment and simultaneously expand services to meet the needs of new residents in the community.

This fiscal practice encourages thrift and accountability; departments retain 50% of any carry over portion of their ECB appropriations and use it in future years for special expenditures or to cover uneven service cost increases. This avoids the “use it or lose it” mentality that sometimes leads to wasteful year-end spending in other government agencies. Since the ECB provides a single appropriation to each department, department managers have the flexibility to make and revise their internal line-item budgets to meet changing needs and take advantage of opportunities for increased efficiency. Beginning with fiscal year 1997-98 these carryover appropriations, have been authorized as a separate action by the City Council.

While the annual adjustment is designed to be automatic, the City will carefully monitor General Fund revenues to ensure that available funds will meet or exceed the ECB level. If actual revenues lag behind projected revenues and community growth, as they have in recent years, the ECB appropriations can be held flat or reduced through an automatic “deflator”, or by a separate Council action. For FY 2004-05 the department heads met the City Manager’s request for a 2.5% reduction from the “maintenance of effort” appropriations funding level for non-safety departments, in addition to maintaining a “hiring freeze” for vacant positions in all categories of employment (both safety and non-safety job classes).

The ECB system holds Department heads and employees accountable for the “bottom line” while providing them the flexibility to be innovative with the resources at their disposal. For the next two budget cycles (2004-05 & 2005-06), the City will focus its attention to maintaining services and programs at the FY 2003-04 levels.

2004-05 BUDGET BY FUNCTION

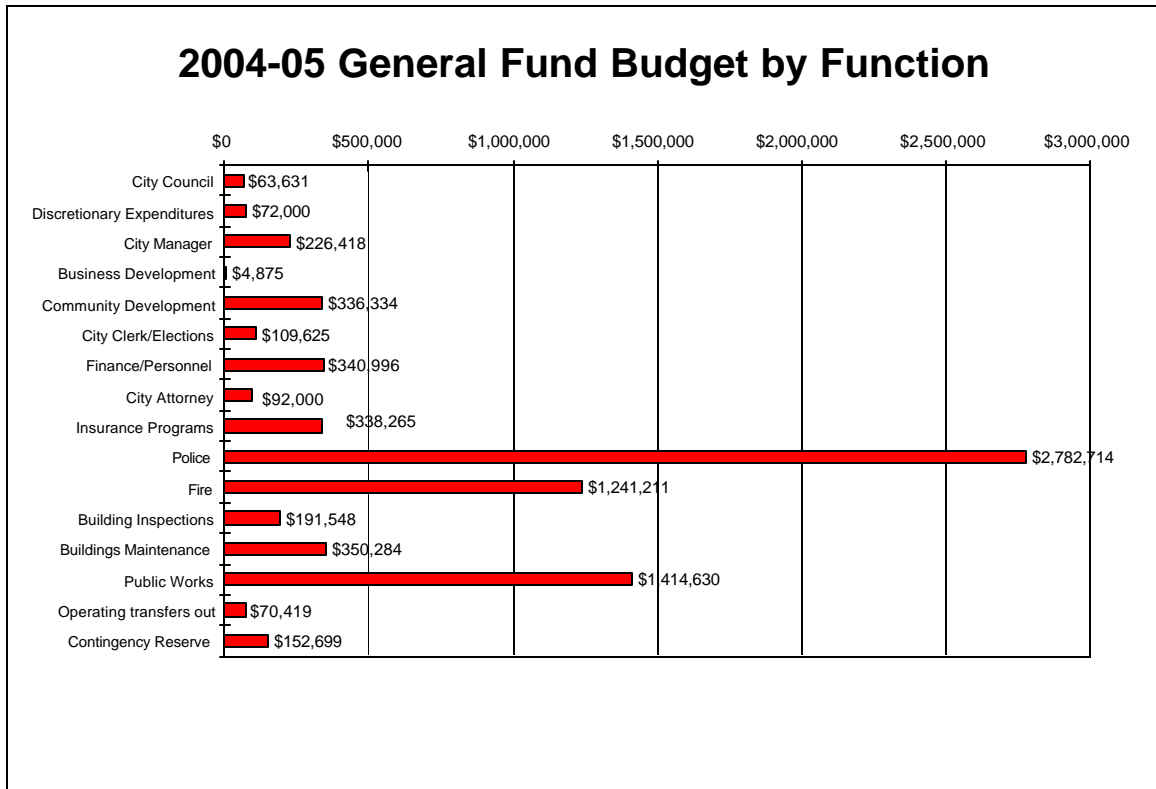


Figure 10

Figure 10 displays the basic functions performed by the General Fund and identifies their recommended funding for 2004-05. The largest commitment (of total) is to public safety, with \$4,059,235 (52% of General Fund expenditures) in funding for police and fire services. Public Works costs is the second greatest commitment at 18% of the general fund costs. Community development costs, including planning, and building inspections is 7%. General government costs (combining legislative, management and financial) total 23%.

NON-GENERAL FUND OPERATIONS OVERVIEW

In addition to the General City services provided under the General Fund, there are a variety of other services provided by City departments which have their own dedicated funding sources.

Auburn Municipal Airport: Is a general aviation airport serving recreation, commuter, limited air cargo, and public safety needs. Revenues generated off the easterly 40 acres of the City's Industrial Park (Phase I) are included in the Airport Enterprise Fund.

City Industrial Park: Is a City owned industrial park located next to the Airport for general and aviation related industries. *Note: since 1997-98 this activity has been included within the City's General Fund appropriations.*

Sewer Utility: Builds, operates and maintains Auburn's sewer treatment plant and collection system.

Auburn Transit (Auburn Mini-Bus): Provides regularly scheduled bus services and a variety of special transportation programs for people with special needs.

In general, non-General Fund operations are funded by State and Federal grants and by user fees. As independent City operations, the revenues and expenses in these funds do not have a direct impact on the City's General Fund. For example, the operations at the sewer plant are not supported by the General Fund's tax revenues, and the work that City employees do in support of the sewer utility is paid for by the fees collected for sewer services.

Detailed information on each of the major non-General Fund operations is provided in the pages that follow.

SEWER OPERATIONS

The Sewer Utility is a self-supporting enterprise which is paid by sewer service charges and connection fees on new users. The City currently operates under contract, one wastewater treatment plant, 85 miles of sewer line, and 11 lift stations serving approximately 3,600 homes and business.

The operation and maintenance of the City's sewer treatment plant and sewer collection system is paid for by monthly service charges to all residential and commercial users. Sewer fees are a combination of a volume, strength, and flat service charges. Every two years an audit of the sewer rates/charges will be performed to ensure each class of user pays only their fair share of utility costs.

SEWER CAPITAL PROJECTS

As the City of Auburn grows the Sewer Utility manages an on-going program of construction to up-grade treatment facilities, transmission lines and collection systems that are required to serve new development. Increasingly strict effluent quality standards have also required the up-grading of the treatment facility system.

The Sewer Utility pays for its capital construction and expansion program with connection fees from new users and any income from debt borrowings. The most recent facilities upgrade of the Wastewater Treatment Plant, located in Ophir, was completed at a cost of approximately \$5,685,000. Phase 1A of the project (approximately \$2,175,000) was completed in the Fall of 1998. Phase 1B (approximately \$3,510,000) was completed in the Spring of 2001.

TRANSIT OPERATIONS

The City has provided public transit since 1978, when the first dial-a-ride service was initiated with one small van. Fixed route service was begun in 1989.

The goal of the Auburn Transit System is to provide citizens with a convenient, attractive and economical alternative to automobiles and increase the mobility of young, elderly, economically disadvantaged and handicapped persons.

A wide variety of transit services are provided by the mini bus, including fixed route bus service, dial a ride service, and group contract service.

Transit programs are funded primarily through Transportation Development Act (TDA) funds.

The Auburn Transit System provides funding for a variety of projects that benefit transit and encourage alternatives to automobile use.

The largest project currently being planned is the development of a Regional Transportation Center over the next five years.

REDEVELOPMENT AGENCY OPERATIONS

Redevelopment Agency: provides essential funding for capital projects, housing projects, studies, planning and development efforts which are focused on the economic development of blighted areas within the City.

The Auburn Redevelopment Agency, known as the Auburn Urban Development Agency (AUDA) is comprised of a “project area” where projects are undertaken to improve public facilities, create jobs, revitalize neighborhoods, and provide funding for low and moderate income housing. Capital funding is obtained primarily through the sale of bonds or other loans, and the debt service on the bonds is paid with property tax revenues (“tax increments”) from the assessed value growth, above unimproved taxation levels within the project area.

AGENCY ASSETS

The Redevelopment Agency owns land outside of the project area (the Blocker Drive property). This property is held for lease or sale for future construction of low/moderate income housing, and has an appraised value of \$350,000.

Fiscal limitations on the amount of tax increment generated by the Agency hampers the ability of the redevelopment agency to accomplish its economic development goals, and accordingly, the number of planned capital projects have been reduced to a minimum.

REDEVELOPMENT AREA LOW AND MODERATE HOUSING SET-ASIDE

A major source of funding for housing programs is the set-aside of property tax increments for the redevelopment project area. The “low/mod” funds must be used for the benefit of low or moderate income housing within the City, and State law specifies that redevelopment areas must set aside 20% of tax increments unless there are special circumstances. Auburn’s redevelopment agency presently sets aside 20% of the tax increments.

To the extent that low/mod funding is available, it could be used for a number of activities including but not limited to: support new housing programs, single-family mortgage subsidies, acquiring new multi-family housing, creating housing rehab loan programs, housing conservation efforts, and reimbursing City administrative expenses. The most recent project that the Agency has participated in is the 80 unit ‘Palm Terrace Apartments’ facility, which was completed in this last Fall (2003).

REDEVELOPMENT CAPITAL PROJECTS

Due to the State of California's actions, which have diverted tax increment revenues away, and due to the failure to transfer public properties (E.V. Cain site, College Way 4.2 acres, and Juvenile Hall site) into private ownership for development, the City has been forced to curtail the number and extent of projects proposed in the agency's original plan. Beginning in fiscal year 2002-03 California's redevelopment agencies are now required to assist in the funding of the Educational Revenue Augmentation Fund for local school districts. For the Auburn Urban Development Authority (A.U.D.A.) the initial property transfer amount was determined to be the sum \$7,123. The amount of property tax increment that will be shifted for the next (2004-05) fiscal year has not yet been determined by the State Legislature, but is estimated to increase by approximately 2.25 times last year's amount. For the A.U.D.A. we anticipate an increase to as much as \$23,150. The Governor has suggested that these annual increases continue (increasing at a rate of 5% per year) until as much as 50% of the redevelopment tax increment is captured by the ERAF process, over the next 15 fiscal years. In current year dollars (2004-05) that would equate to \$187,792 annually, from Auburn's redevelopment agency. If the Governor's plan is implemented the fiscal vitality of the A.U.D.A. will be significantly compromised.

Recently, the agency has completed the engineering phase of a storm water diversion project (Electric Street Diversion) related to the Old Town Drainage Project, and supported to the design and construction of public restrooms in the Old Town commercial area. This budget proposes funding for a parking lot renovation project (the High Street Parking Lot) located in the City's central business district. These activities have been funded on a "pay as you go" basis (from property tax increments), without the need for external borrowing of project funding.

CAPITAL IMPROVEMENT PROJECTS

While the General Fund covers the costs of operating the City of Auburn, most of the infrastructure used by the City is paid for by special revenue sources. This infrastructure includes streets, bridges, sewer treatment plants, public buildings, drainage and sewer projects.

The City's 6-year capital improvement program includes \$5 million in projects which have identified sources of funding (2003 dollars). These funding sources included State and Federal grants, proceeds from bond sales, and revenues from existing development fees.

All capital projects scheduled by the City (including the Sewer Utility) will be incorporated into the federally mandated thirty-year Comprehensive Capital Budgeting system, a computer model that will be used for long-term planning in conjunction with the General Planned federal transportation planning.

In addition, there are a large number of storm drainage projects that are dispersed around the City and will have to be paid for by a newly created capital funding source, that is not yet established.

FINANCING SOURCES FOR TRANSPORTATION PROJECTS

The City uses financing from a number of sources, including State and Federal programs, to build and maintain the street transportation network. Unfortunately, while the need for funding is increasing, the fiscal crises in Sacramento and Washington are creating doubts about the future of State and Federal funding. In addition, the slowdown in local residential development has reduced the amount of local funding available to support street projects. Some of the key resources are as follows:

State Gas Tax

The State currently imposes a 14 cent tax per gallon of gasoline, and allocates part of it to cities and counties on the basis of population and statutory formulas. These funds are restricted to use for street maintenance, traffic safety, and construction, and are one of the principal sources of funding available to the City.

The Gas Tax is levied on gallons of gas sold, not the price of gas, so revenue levels are determined by overall consumption and fuel economy. Revenue growth has averaged about 2% per year independent of the Prop. 111 rate increases (9 cents). Annual revenues currently total \$253,387. Approximately 75% of the gas tax revenue provides funding for street lighting. The remainder will be used for roadway maintenance and construction activities.

Transportation Development Tax (TDA)

Transportation Development Tax (TDA) funds come from 0.25 cents of the 7.25 cents statewide sales tax rate, which is allocated to counties or regional transit agencies. The City's allocation is governed by the Placer County Transportation Commission (PCTC), consisting of officials from all Placer County jurisdictions. Funds are split between transit and street needs based on grant requests using PCTC priorities, and by law transit needs have first call on available money.

TDA funds provide a major portion of the funding for the Auburn Transit System, with operating support forecast at approximately \$423,932 for 2004-05; in the past the City has been allowed to use excess funds to pay for streets projects.

Surface Transportation Program (STP)

The STP program is a Federal program that provides a guaranteed source of funding to Counties for road, transit and transportation improvements. STP, as part of ISTEA is a major source of funding for projects in Auburn.

TRANSPORTATION CAPITAL IMPROVEMENT PLAN

The largest area of capital investment in the City is the network of street projects that serve vehicular traffic. These projects include streets, bridges, interchanges, intersections, street lights, sound walls, and many other street related projects.

The continuing growth of the City is creating significant demands for the maintenance and expansion of the street and highway network. Higher levels of traffic are putting an increasing burden on existing road surfaces and creating a need for widening of roads and the improvement of intersections and I-80 interchanges.

DEVELOPMENT MITIGATION FEE CAPITAL PROJECTS

As the City of Auburn grows from its current population of around 12,634 persons to an eventual population of over 23,000 by the year 2012, there will be a need to provide new streets, public buildings, libraries and other facilities to maintain the quality of life that the City currently provides. In many cases new residential and commercial/industrial developments pay for the streets and other facilities immediately adjacent to their sites, either by direct investment on the part of the developer or through the issuance of assessment district bonds that allow developers to pool their resources to pay for major capital improvements.

While development usually pays for local area improvement, new development also has the effect of increasing overall demand for transportation and public services. For example, as the City grows there will be increasing levels of traffic on the I-80 interchanges in Central Auburn which will eventually cause traffic jams and seriously impact the quality of life for residents. In order to meet these anticipated needs the City will be developing development impact fees that cover the cost of identified improvements. The city has historically collected off-site mitigation fees for a variety of projects. City staff will develop models using trip-end data generated during the general plan update in 1993. The intent is to create uniform “zoned” style fees that are easily managed and administered. A summary of current development impact fees are, as follow:

IMPACT MITIGATION FEES – JUNE 2004

| DRAINAGE | |
|---|--|
| Nevada Street | \$480/Acre |
| Rock Creek Reservoir | \$750/Acre (paid directly to Placer County) |
| SEWER | |
| Auburn Bluffs | |
| Gravity Only | \$505.68/Unit + CPI Adjustment |
| Gravity - Lift Station Area | \$256.79/Unit + CPI Adjustment |
| Maidu Lift Station | \$138.45/Lot |
| Southwest Sewer | \$750.00/Acre |
| Annexation Fee (in process of being recinded) | \$419.00/Unit |
| North Area Sewer | \$297.51/Lot |
| TRAFFIC | |
| Indian Hill Rd/Auburn Folsom Rd. | \$25.80/Lot |
| Herdal Dr./Auburn Folsom Rd. | \$27.60/Lot |
| Dairy Rd. Improvement Fee | \$221.17/Lot + CPI |
| Hwy 49 Traffic Mitigation | \$39.00/Trip End - 10 Trips/Lot |
| Nevada Street | \$70 - \$113/Trip End |
| Edgewood Road | \$3,905/Lot |
| Oakridge Way - Road Network | \$1,215/Lot |
| Shirley St/Garfield Intersection Mitigation Fee | \$28.40 / Trip End |
| MISCELLANEOUS | |
| Maidu Fire Station | \$210.00/Lot |
| ARD Fees | \$1,073.28/Lot |
| Facilities and Equipment Improvement Fee | \$2,750/Dwelling - \$0.85 Sq. Ft. Commercial or Industrial space within C.D.F. |

OTHER CAPITAL PROJECTS

Drainage Maintenance Capital Projects

Drainage facilities are traditionally funded via the Transportation tax fund, or other sources, as there is not a dedicated funding source for drainage improvements. Most drainage improvement activities have focused upon repair and replacement of existing facilities.

DEBT SERVICE

Most City services are on a pay-as-you-go basis; however, the construction of major City facilities have been financed through bond sales and bank loans.

CITY DEBT SERVICE

This section addresses bonds of the City which are also included in an enterprise fund such as airport, sewer and redevelopment.

General Obligation (GO) Bonds

These bonds are backed by the full faith and credit of the City, which levies a property tax to repay the bonds, are called general obligation bonds. The City will make a \$ 20,125 payment on 2-1-04 and a \$134,168 payment on 8-1-03 for the redemption of the Civic Center Bonds. The August payment includes scheduled debt redemption in the amount of \$110,000. The balance of the debt outstanding (after this reduction in the principal balance) will be \$540,000, and the final payment is scheduled for 8-1-08.

Certificates of Participation (COP's)

This debt was issued by the City to renovate capital facilities and buildings (the Public Safety Building). Nonspecific revenue sources are used to pay debt service on this debt. In fiscal year 2001-02 the sum of \$1,272,000 was transferred from unallocated General Fund cash into an interest bearing Debt Service Reserve Account, to provide for early retirement of this debt in September of 2005. Based on continued reductions in interest rates it was fiscally prudent and cost beneficial to liquidate on September 1, 2003. Accordingly, an additional transfer of \$338,650 was transferred from the City's General Fund to the debt service reserves for early payoff of this debt. The City paid \$2,503,294 on 9-1-03 to discharge the bonds in their entirety. The gross interest savings estimated to accrue from early retirement of this debt (in September 2003) was determined to be the sum of \$1,184,677, and the net present value of the future interest savings (at that time) was \$459,365. This action freed up \$165,000 annually in General Fund appropriations, which help to offset some of the reductions in State revenue subventions and increased salary and benefit costs.

Assessment District Debt Service

Assessment Districts are basically geographical areas within which property owners pay special assessments for debt service on construction projects that benefit that particular district. There are no active assessment districts within the City of Auburn, at this time.

Improvement Bond Act of 1915

The Auburn Bluffs sewer assessment district ***no longer*** has any outstanding bonded indebtedness. The bonds were issued under the terms of the 1915 Improvement Bond Act and were repaid by assessments on properties receiving the benefit of the improvements. The remaining bonds were called and redeemed on March 2, 1996.

Assessment districts have historically financed a variety of street and sidewalk improvements, storm drainage, sewer and sewer installations, street lighting, and under grounding of electric utilities.

GANN SPENDING LIMIT - PROPOSITION 4 COMPLIANCE

On November 6, 1979, California voters overwhelmingly approved Proposition 4 (the “Gann Tax Spending” initiative) which added Article XIII(B) to the California State Constitution. This law limits the growth in expenditure appropriations of both state and local governments that are financed with tax dollars. Proposition 4 was labeled a spending limitation regulation, but is more accurately described as a limit on the appropriation of taxes to finance government activities. Accordingly, Proposition 4 does not limit all appropriations (government spending), but applies specifically to the restriction of appropriations (spending) financed by taxes. Section 7910 of the Government Code requires the governing body of each local jurisdiction to establish (by Resolution) it’s appropriations limit for each fiscal year.

The table below computes the “Gann Spending Limit” for the next budget period (2004-05):

| Fiscal Year | Population Counts | Prior Year | Population Percent Change | Per Capita Income Factor | Annual Growth Factor | Cumulative Growth Factor | Computed "Gann" Limit |
|--------------------|--------------------------|-------------------|----------------------------------|---------------------------------|-----------------------------|---------------------------------|------------------------------|
| 2004-05 | 12,634 | 12,235 | 1.0326 | 1.0328 | 1.0665 | 5.5177 | 7,222,228 |
| 2003-04 | 12,235 | 12,287 | 0.9958 | 1.0231 | 1.0188 | 5.1737 | 6,772,017 |
| 2002-03 | 12,287 | 12,511 | 0.9821 | 0.9873 | 0.9696 | 5.0784 | 6,647,248 |
| 2001-02 | 12,511 | 11,391 | 1.0983 | 1.0782 | 1.1842 | 5.2375 | 6,855,496 |
| 2000-01 | 11,391 | 11,595 | 0.9824 | 1.0491 | 1.0306 | 4.4228 | 5,789,078 |
| 1999-00 | 11,595 | 11,598 | 0.9997 | 1.0453 | 1.0450 | 4.2913 | 5,616,961 |
| 1998-99 | 11,598 | 11,422 | 1.0154 | 1.0415 | 1.0575 | 4.1064 | 5,374,930 |
| 1997-98 | 11,422 | 11,431 | 0.9992 | 1.0467 | 1.0459 | 3.8829 | 5,082,444 |
| 1996-97 | 11,431 | 11,755 | 0.9724 | 1.0467 | 1.0179 | 3.7126 | 4,859,509 |
| 1995-96 | 11,755 | 11,593 | 1.0140 | 1.0472 | 1.0618 | 3.6475 | 4,774,288 |
| 1994-95 | 11,593 | 11,291 | 1.0267 | 1.0071 | 1.0340 | 3.4351 | 4,496,268 |
| 1993-94 | 11,291 | 11,156 | 1.0121 | 1.0272 | 1.0396 | 3.3220 | 4,348,267 |
| 1992-93 | 11,156 | 10,865 | 1.0268 | 0.9936 | 1.0202 | 3.1954 | 4,182,513 |
| 1991-92 | 10,865 | 9,812 | 1.1073 | 1.0414 | 1.1532 | 3.1321 | 4,099,651 |
| 1990-91 | 9,812 | 9,411 | 1.0426 | 1.0421 | 1.0865 | 2.7161 | 3,555,143 |
| 1989-90 | 9,411 | 8,775 | 1.0725 | 1.0519 | 1.1281 | 2.4998 | 3,272,095 |
| 1988-89 | 8,775 | 8,519 | 1.0301 | 1.0466 | 1.0781 | 2.2159 | 2,900,433 |
| 1987-88 | 8,519 | 8,157 | 1.0444 | 1.0347 | 1.0806 | 2.0555 | 2,690,442 |
| 1986-87 | 8,157 | 8,125 | 1.0039 | 1.0230 | 1.0270 | 1.9021 | 2,489,723 |
| 1985-86 | 8,125 | 8,092 | 1.0041 | 1.0374 | 1.0416 | 1.8520 | 2,424,199 |
| 1984-85 | 8,092 | 7,958 | 1.0168 | 1.0474 | 1.0650 | 1.7780 | 2,327,312 |
| 1983-84 | 7,958 | 7,803 | 1.0199 | 1.0235 | 1.0438 | 1.6695 | 2,185,194 |
| 1982-83 | 7,803 | 7,648 | 1.0203 | 1.0679 | 1.0895 | 1.5993 | 2,093,437 |
| 1981-82 | 7,648 | 7,441 | 1.0278 | 1.0912 | 1.1216 | 1.4679 | 1,921,390 |
| 1980-81 | 7,441 | 7,061 | 1.0538 | 1.1211 | 1.1814 | 1.3088 | 1,713,147 |
| 1979-80 | 7,061 | 7,022 | 1.0056 | 1.1017 | 1.1078 | 1.1078 | 1,450,057 |
| 1978-79 | 7,022 | - | | | | | |

Figure 11

A comparison of last year's actual and the current budget forecast revenues to the computed tax spending limit indicates that the City of Auburn continues to use approximately 84% of its tax spending authority, as illustrated below:

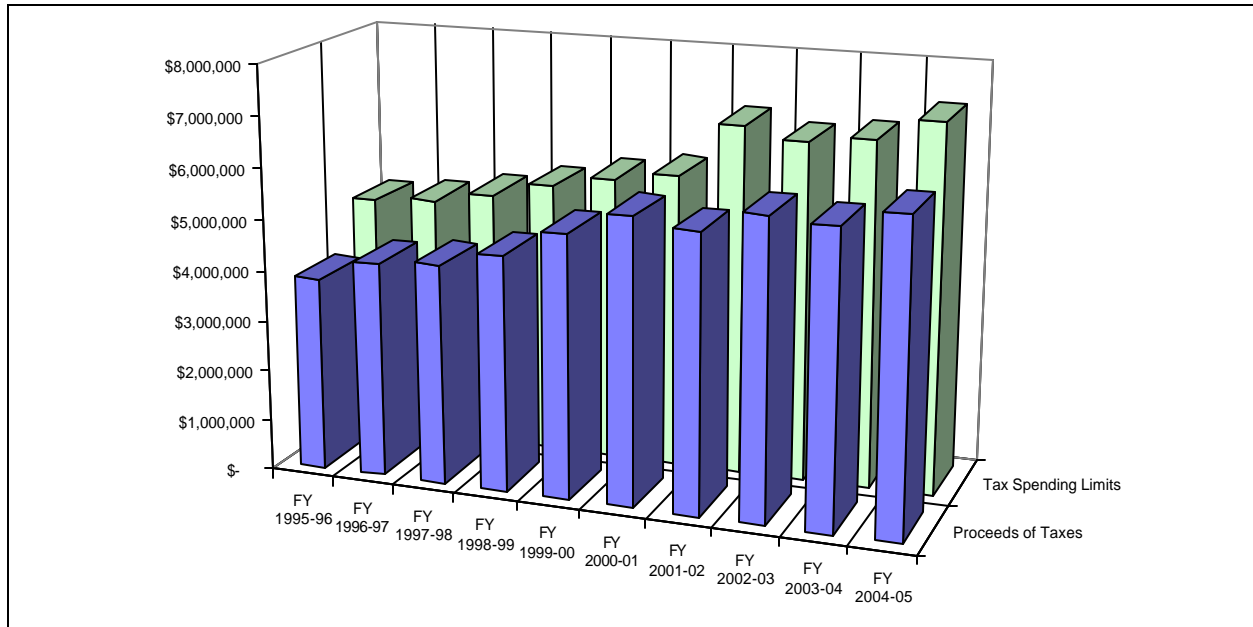


Figure 12

COMPARISONS OTHER JURISDICTIONS

Notwithstanding concerns regarding the validity of comparisons between individual governmental jurisdictions, the following charts are presented as reference points for the functional expenditures submitted in this budget document. In general, we believe that the neighboring cities reported below are similar in terms of the overall services that they provide to their residents; however, a more detailed analysis of the data would be needed to verify that the summary data reflect comparable levels of service (Source: State Controller's Report 2000-01).

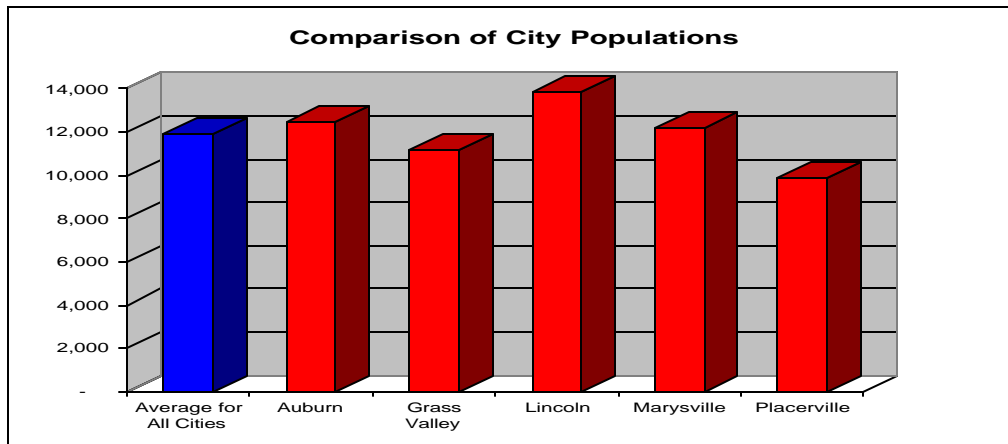


Figure 13

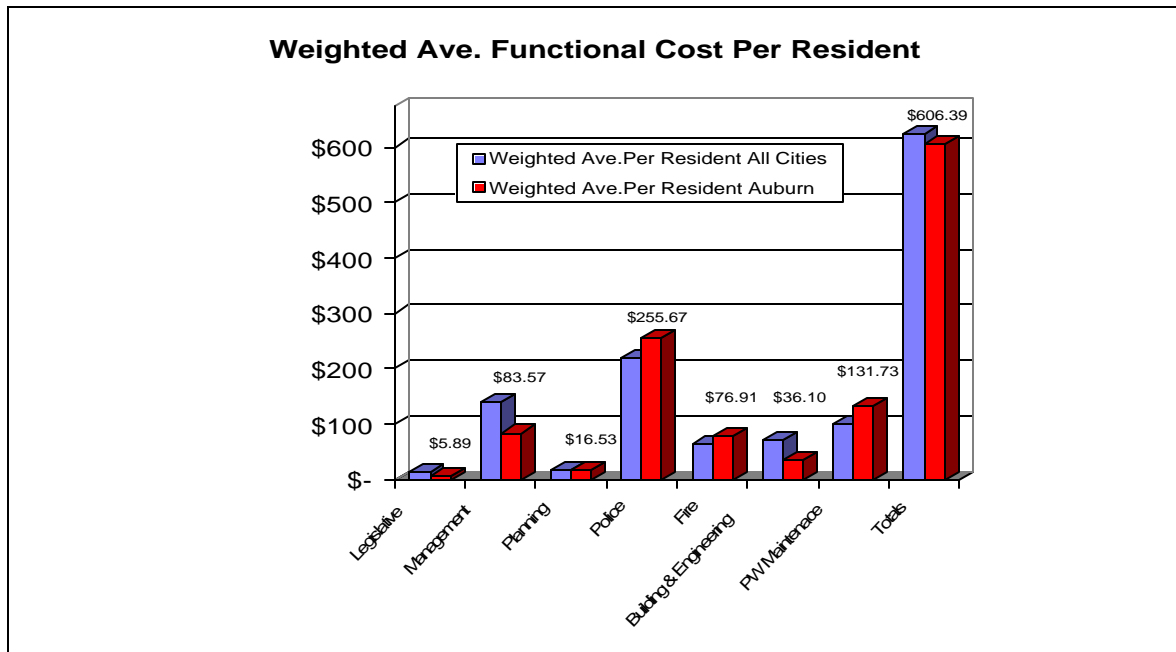


Figure 14

CITY COUNCIL ACTIONS

A Resolution was adopted by the City Council to establish budget appropriations, after proper public notices and hearings, in the prior fiscal year (2003-04) as follows:

- Operating, Capital Projects & Debt Service Funds (Resolution 03-77, 06/23/03)

Section 2-3.219 (Powers and duties: Preparation of budget) of the Auburn Municipal Code prescribes preparation and submission of an annual budget by the City Manager to the City Council.

Resolution 03-59 was adopted by the City Council on June 9, 2003 to establish the 2003-04 Appropriations Limit for the City of Auburn. Resolution 04-xx will be adopted by the City Council on June 28, 2004 to establish the 2004-05 Appropriations Limit.